



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PPD 730.5.35.1

April 27, 2001  
01-PPD-031(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA**  
**DIRECTOR, FIELD DETACHMENT, DCAA**

**SUBJECT:** Audit Guidance Memorandum: AUDIT ALERT - Discontinue use of APPS for Desk Review of Annual Incurred Cost Audit at Low Risk Contractors with \$10 Million or less ADV

**Effective immediately, auditors are not to use the April 2001 Version of the APPS for Desk Review of Annual Incurred Cost Audit at Low Risk Contractors with \$10 Million or Less ADV**

The April 2001 release of the DCAA Application Installer CD contained a new APPS audit program for the Desk Review of Annual Incurred Costs at Low Risk Contractors with \$10 Million or less ADV. Through an inadvertent error, the APPS program does not generate the appropriate working papers. For example, the working paper B(1/1) risk assessment is the risk assessment for a full incurred cost audit, rather than an incurred cost desk review. However, the mechanics of the APPS require that the working paper B(1/1) be completed prior to proceeding through the rest of the APPS. Consequently, use of the APPS will require the auditor to delete some working papers and to make numerous edits to others. In addition, APPS generates a report shell rather than a memorandum. These problems will be corrected in the July 2001 APPS update.

To avoid making numerous corrections to the APPS-generated working papers, auditors should not use the April 2001 version of the APPS when performing desk reviews at low risk contractors of \$10 million or less ADV. Instead, auditors should continue to use the Word documents that were included as enclosures to MRD 00-PPD-108 (R), Revisions to CAM and Proforma Working Papers for Desk Reviews at Low Risk Contractors with \$10 Million or less ADV, dated December 28, 2000 (Enclosure).

Please direct any questions regarding this memorandum through the regions to Ms. Patricia Letzler, Policy Programs Division, at (703) 767-2270.

/SIGNED/

Lawrence P. Uhlfelder  
Assistant Director  
Policy and Plans

Enclosure:

MRD 00-PPD-108(R), Revisions to CAM and Proforma Working Papers for Desk Reviews at Low Risk Contractors with \$10 Million or Less ADV dated December 28, 2000

# DCAA MEMORANDUM FOR REGIONAL DIRECTORS COVER SHEET

## AUDIT GUIDANCE/MANAGEMENT MEMORANDUM NO. 00-PPD-108(R)

Date of MRD: 28 Dec 2000

Subject of MRD: ~~Revisions to CAM and Proforma Working Papers for Desk Review at Contractors with \$100 Million or Less ADV~~

### Current Audit Guidance and/or Audit Management Guidance Affected:

Paragraph	CAM Explanation of Effect on Current Version of CAM
6-104.1	Clarify guidance on classifying proposals as high risk
6-104.5	Clarify that a rate agreement, including CACW should be included in memorandum to the ACO
Figure 6-1-1	Add paragraphs to detail all the steps performed in a desk review

### STANDARD AUDIT PROGRAMS

Type of Report	Pro Forma Document Name	Step No.	Explanation of Effect on Current Audit Program
			Establish Desk Review Procedures of Annual Incurred Cost Audit at
			Low-Risk NonMajor Contractors \$10 Million or Less ADV

### PRO FORMA AUDIT REPORTS

Type of Report	Pro Forma Document Name	Sec/Par.	Explanation of Effect on Current Audit Report
NONE			

### MEMORANDUMS FOR REGIONAL DIRECTORS

MRD No.	Date	Subject/Explanation of Change
NONE		

### INTERNAL CONTROL QUESTIONNAIRE/VULNERABILITY ASSESSMENT PROCEDURES

ICQ or VAP	Section & No.	State Control(s) Affected by the Change
NONE		

### DCAA PAMPHLETS/REGULATIONS/INSTRUCTIONS

DCAAP/RI/No.	Date	Page/Sec/Par	Explanation of Effect
NONE			

### PLANNING AND STAFF ALLOCATION DOCUMENT/DMIS USER MANUAL

POD/Man	Page/Sec/Par	Explanation of Effect
NONE		

**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

December 28, 2000  
**00-PPD-108(R)**

**PPD 730.5.90.1**

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Revisions to CAM and Proforma Working Papers for Desk Reviews at Contractors with \$10 Million or Less ADV

The Region/FD Quality Assurance divisions performed a review of incurred cost audits at contractors with \$10 million or less ADV. As a result of their field visits and discussions with FAO personnel at the sites visited, the review team developed recommendations for clarifying the audit guidance in CAM, and identified "best practices" for performing risk assessments and desk reviews for contractor years with \$10 million or less ADV. PQA, the RQAs/FQA, and QA project leaders from each Quality Assurance division summarized the results of their review and developed recommendations to improve the guidance. The proposed changes to existing guidance incorporating the recommendations of the team are summarized below and detailed in the enclosures to this memorandum. We recognize that the enclosed audit program is not incorporated in the APPS. We anticipate including the program in the March 2001 release of APPS. Because there is not an agency APPS for desk review incurred cost assignments and to facilitate the FAO's completion of desk review incurred cost assignments, we decided to provide the field the audit program and APPS workpapers as part of this guidance memorandum rather than wait for the March 2001 release of APPS.

Audit Guidance

- CAM 6-104.1 – Classifying Proposals as High or Low Risk  
The substance of CAM 6-104.1c(3) is moved up to this paragraph. CAM 6-104.1c(3) contains criteria for classifying proposals as high or low risk when a contracting officer request for audit is received. This guidance is moved up in the CAM to clarify that it applies to contractor fiscal years with less than \$500,000 ADV as well as to those with ADV between \$500,000 and \$10 million.
- A new paragraph is added to clearly state that after two consecutive fiscal years at the same contractor are closed out using desk review procedures, the next year's proposal must be assigned to the high-risk pool of proposals to be audited.
- CAM 6-104.1b – Contractor's ADV Less than \$500,000      This paragraph is revised to clearly state that for new contractors where we have no audit experience, the incurred cost proposal should be classified as high risk.

MRD 00-PPD-108(R)

PPD 730.5.90.1

SUBJECT: Revisions to CAM and Proforma Working Papers for Desk Reviews at Contractors with \$10

Million or Less ADV

- CAM 6-104.5.a.(7) This paragraph is revised to clarify that along with the memorandum to the ACO on the results of the desk review, the auditor should enclose the rate agreement letter and the Cumulative Allowable Cost Worksheet (CACW).
- CAM 6-104.5.a.(8) This paragraph is revised to clarify that the auditor should request the contractor to adjust billing rates for the year reviewed to match the review determined rates.
- Figure 6-1-1 – Proforma Memorandum to the ACO Additional paragraphs are added to the Proforma memorandum to explain to the ACO all of the procedures that we performed.

The CAM changes in line-in/line-out format are included as Enclosure 1.

The reviewers' observed "best practices" which should be implemented Agency-wide are as follows:

#### Risk Determination Worksheet

A standard risk assessment form should be used when classifying submissions as either high or low risk. FAOs that used a risk assessment form that included the risk criteria in CAM 6-104, or a facsimile, performed better risk assessments. Accordingly, the risk assessment form, *Risk Determination for Contractor Years with \$10 Million or Less ADV*, should be used to assess risk associated with contractor years with \$10 million or less ADV. This form is included as Enclosure 2 and will be incorporated into the next DIIS update.

#### Proforma Working Papers for Desk Reviews

**A proforma work package including a standard desk review program should be used when performing desk reviews. The RQAs/FQA found that FAOs that created proforma working papers for desk reviews, including low-risk desk review programs, were more compliant with CAM 6-104. Accordingly, the proforma working papers for desk reviews, *Procedures for Desk Review of Annual Incurred Costs at Low-Risk NonMajor Contractors With \$10 Million or Less ADV* should be used for desk reviews at low risk contractors. This desk review program is included as Enclosure 3 and will be incorporated into the next DIIS/APPS update.**

Please direct any questions regarding this memorandum through the regions to Mr. Mike Weisz, Quality Assurance Division at (703) 767-2250, or e-mail DCAA-PQA@dcaa.mil.

/signed/

Lawrence P. Uhlfelder  
Assistant Director  
Policy and Plans

Enclosures – 3

1. Recommended CAM 6-104 Changes
2. Risk Determination for Contractor Years with \$10 Million or Less ADV
3. Proforma Working Papers for Desk Reviews

DISTRIBUTION: C

2

## Recommended CAM 6-104 Changes

### 6-104 -- Audit Scope -- Incurred Costs at Low-Risk Contractors with \$10 Million or Less ADV

a. The annual incurred cost proposals from contractors with annual dollar volume (ADV) of \$10 million or less will either be audited or desk reviewed. FAOs will determine which of the two approaches to use based on the procedures set forth below. The procedures call for all high-risk proposals to be audited. Approximately one-third of low-risk proposals will be selected for audit using random sampling techniques. Desk review procedures will be applied to the remaining two-thirds of low-risk proposals.

b. This guidance does not apply to educational institutions and nonprofit organizations subject to OMB Circular A-133. The requirements in Circular A-133 will be followed when performing audits at educational institutions and nonprofit organizations subject to the Circular (see Chapter 13).

#### 6-104.1 -- Classifying Proposals as High or Low Risk

a. Each incurred cost proposal received and determined adequate by the FAO will be assessed for risk and then, on the basis of this assessment, assigned to either the:

(1) high-risk pool of proposals to be audited; or

(2) low-risk pool of proposals to be sampled. The FAO's risk assessment must be adequately documented. Low-risk contractor classifications should be discussed with the ACO and noted in the working papers.

b. If there is a contracting officer request identifying significant risk associated with an incurred cost proposal, the proposal will be included in the high-risk pool. If an audit request is issued with no apparent risk, the auditor must contact the requester to understand the basis for the request. If after discussion with the contracting officer there is no risk identified, the proposal will be classified as low-risk. DCAA's desk review procedures applied to low-risk proposals not selected for audit should be explained to the contracting officer.

c. After two consecutive fiscal years at the same contractor are closed out using desk review procedures, the next year's proposal must be assigned to the high-risk pool of proposals to be audited. (However, see 6-104.2c for classification when **two** or more low-risk proposals are received.)

**d. If a contractor's ADV for a given CFY is less than \$500,000 and there are no audit leads with a high probability of significant questioned costs (i.e., cost impact of more than \$10,000, see e.(2) below) and an audit has been performed of either of that contractor's last two fiscal year's incurred cost proposals, then the contractor's incurred cost proposal for that CFY is low risk. No other risk factors need be considered, and the \$500,000 threshold applies to all contractors, unless we have no prior audit experience (e.g., preaward accounting system survey, proposal audit,**

## **Recommended CAM 6-104 Changes**

**establishment of billing rates). For new contractors where we have no prior experience, the incurred cost proposal should be classified as high risk.**

e. If a contractor's ADV for a given contractor fiscal year (CFY) is between \$500,000 and \$10 million and meets the following criteria, the proposal is low risk:

(1) There were no significant questioned costs in the prior audit. In determining significance, apply these guidelines:

(a) questioned costs with an impact of less than \$10,000 on flexibly priced government contracts are generally not material, and

(b) questioned costs with an impact of \$10,000 or more may also be immaterial in certain circumstances (e.g., the item in question is isolated and nonrecurring).

(2) There are no audit leads with a high probability of significant questioned costs. Consistent with the above guideline, the auditor normally will not consider leads with a cost impact on flexibly priced government contracts of less than \$10,000 to be material.

(3) We have incurred cost audit experience with the contractor.

(4) Either of the last two fiscal years' incurred cost proposals has been audited.

### **6-104.2 -- Controls for Sampling**

a. Establish controls to ensure that one-third of the low-risk proposals and all high-risk proposals are audited. The controls should also ensure that low-risk contractors are audited at least once every three years. Desk review procedures described in 6-104.5 should be applied to close out the low-risk proposals not selected for audit.

b. Use a random selection procedure to select one-third of the low-risk proposals for audit. FAOs should establish procedures that provide for random selection of the low-risk proposals for audit upon proposal receipt. This will allow application of desk review procedures to low-risk proposals not selected for audit in conjunction with proposal adequacy review. FAOs should document the random selection process.

c. If an FAO has two or more unaudited incurred cost proposals for a contractor and the proposals are high risk, audit all proposals on hand using multi-year auditing techniques (see 6-603.6). If an FAO has two or more proposals from a low-risk contractor and based on the audit/desk procedure cycle an audit needs to be performed of one of them, the FAO should classify the year they believe presents the greatest risk to the government as the high-risk year and audit that year. Do not disposition the earlier years' proposals, or any others subsequently received and classified as low risk, until completing the audit of the high-risk year. If there are no significant questioned costs found during the audit of the proposal, the prior proposals (if classified as low-risk) may be closed out using the desk review procedures discussed in 6-104.5.

## **Recommended CAM 6-104 Changes**

If the proposal selected for audit is found to contain significant unallowable costs, audit all proposals using multi-year auditing techniques.

### **6-104.3 -- Audit of Low-Risk Proposals**

- a. If a contractor's low-risk incurred cost proposal has been randomly selected for audit, any incurred cost proposal subsequently received from that contractor and classified as low risk should not be dispositioned until the sample audit is completed. When multiple contractor proposals are awaiting settlement, the audit must be accomplished as soon as practical.
- b. If significant questioned costs are found in the sample audit, all other incurred cost proposals on hand for the contractor must be audited using multi-year audit techniques.
- c. If immaterial questioned costs are found in the sample audit, close out all other low-risk proposals on hand for the contractor by using the desk review procedures discussed in 6-104.5.

### **6-104.4 -- Audit of High-Risk Proposals**

- a. All high-risk and randomly selected low-risk proposals should be audited using the Standard Audit Program for Annual Incurred Cost Audits at Nonmajor Contractors.
- b. When a contractor's ADV cycles between over and under \$10 million, the auditor must audit those proposals for CFYs over \$10 million in ADV. The auditor should consider the efficiencies gained through use of multi-year auditing techniques (see 6-603.6) before deciding to include the contractor's under \$10 million proposal in the sampling initiative.

### **6-104.5 -- Desk Review of Low-Risk Proposals**

- a. The following procedures will be performed on proposals in the low-risk pool that are not selected for audit.
  - (1) Ensure that a "Certificate of Indirect Costs" has been executed by the contractor and a copy is included in the working paper file.
  - (2) Scan the proposal for unusual items, obvious potential significant questioned costs, compliance with special contract terms and conditions, and audit leads that need follow up.
  - (3) Scan the proposal to determine if there are any significant changes from the prior year's proposal that need follow up.
  - (4) Verify the mathematical accuracy of the proposal.
  - (5) For proposals that include significant corporate or home office allocations, incorporate the corporate/home office audit results (this may require suspending the desk review until the corporate/home office audit is completed).

## **Recommended CAM 6-104 Changes**

**(6) Execute a rate agreement letter with the contractor for the review-determined rates (see Figure 6-7-2). If the rates will be negotiated by the contracting officer, proceed with the close-out memorandum discussed below. See 10-506 for distribution.**

(7) Send a memorandum to the ACO to report the review-determined or recommended rates and recommended direct costs (see Figure 6-1-1). See 10-506 for distribution. Enclose the rate agreement letter, including the Cumulative Allowable Cost Worksheet (CACW) with the memorandum.

(8) Request the contractor to adjust the provisional billing rates for the reviewed year(s) to match the review-determined rates. This request is included in the rate agreement letter (see Figure 6-7-2).

## Recommended CAM 6-104 Changes

### Figure 6-1-1 – Proforma Memorandum for Closing-Out the Low-Risk Incurred Cost Proposals Not Selected for Audit from Contractors with \$10 Million or Less ADV

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Memorandum For: Administrative Contracting Officer

Subject: FYs 1997 and 1998 Review-Determined [Recommended, if ACO negotiated] Final Indirect Cost Expense Rates and Recommended Direct Costs for Small Company, Smalltown, NY 01214-3331

Based on a risk assessment, Small Company's FY 1997 and 1998 incurred cost proposals were not selected for audit. However, we did perform certain procedures as follows:

- a. determined that Small Company's proposals are free of any mathematical errors;
- b. determined that the proposal was certified by Small Company's top management officials that it does not include unallowable costs;
- c. performed a cursory review of the proposal for unusual items, obvious potential significant questioned costs, compliance with special contract terms and conditions, and audit leads requiring follow up;
- d. performed a cursory review of the proposal to determine if there are any significant changes from the prior year's proposal that need follow up;
- e. ensured that the corporate/home office audit results were incorporated, if applicable; and
- f. requested the contractor to adjust the provisional billing rates for the reviewed years to match the review-determined rates.

**Based on our risk assessment and application of these procedures, we found no significant exceptions to Small Company's proposed indirect expense rates and direct costs. Enclosed are the Final Indirect Expense Rate Agreement [recommended rates if ACO negotiated] and Cumulative Allowable Cost Worksheet for Small Company's FYs 1997 and 1998.**

Upon request, we will provide accounting counsel and any additional auditing services the contracting officer may require. Please contact August Jones, Supervisory Auditor, at (xxx) xxx-xxxx or fax (xxx) xxx-xxxx.

Janice McCord  
Branch Manager

Enclosures (2)

1. Final Indirect Expense Rate Agreement [FOUO]
2. Cumulative Allowable Cost Worksheet [FOUO]

**RISK DETERMINATION FOR CONTRACTOR YEARS WITH \$10 MILLION OR LESS ADV**

**CONTRACT** \_\_\_\_\_ **CFY** \_\_\_\_\_  
**OR**

**PRIOR CFY** \_\_\_\_\_ **AUDIT REPORT**  
**AUDITED** \_\_\_\_\_ **NO.** \_\_\_\_\_

**DATE CONTRACTOR'S SUBMISSION**  
**RECEIVED** \_\_\_\_\_

**IF THIS IS A REIMBURSABLE CONTRACTOR, DO WE HAVE AN** **YE** **NO**  
**AUDIT REQUEST?** **S** \_\_\_\_\_  
*(If not, obtain request before further processing)*

**IS THERE A CONTRACTING OFFICER REQUEST IDENTIFYING SIGNIFICANT RISK?** *(If request does not identify apparent risk, the auditor must contact the requester to understand the basis for the request. If, after discussing with the contracting officer, there is no risk identified, check "NO". A "YES" response indicates proposal must be placed in the high-risk pool.)*

**YES** \_\_\_\_\_ **NO** \_\_\_\_\_

**WERE DESK REVIEW PROCEDURES USED TO CLOSE TWO PRIOR CFYs (i.e., THIS IS THE THIRD UNAUDITED YEAR)?** *(A "YES" response indicates proposal must be placed in the high-risk pool).*

**YES** \_\_\_\_\_ **NO** \_\_\_\_\_

**AMOUNT OF** (000 (If less than \$500K go to Section 1. If \$500K or more go to  
**ADV** \_\_\_\_\_) **Section 2.)**  
*(per incurred cost submission)*

<b>CRITERIA</b>	<b>YES</b>	<b>NO</b>
<b><u>Section 1 (ADV &lt; \$500K)</u></b>		
1. There are audit leads with a high probability of significant questioned costs (See guidelines for determining significance of questioned costs.) *	_____	_____
2. We have no audit experience with contractor (preaward accounting, proposal, etc.) (If we have <b>any</b> audit experience, check "NO")	_____	_____

***With a "YES" response to either question, place proposal in the high-risk pool.***

**Section 2 (ADV \$500K - \$10M)**

1. There were significant questioned costs in prior audit. * Amount of Questioned Costs \$ _____	_____	_____
2. There are audit leads with a high probability of significant questioned costs. *	_____	_____

3. We have no **incurred** cost experience with the contractor.  
(If we have any incurred cost experience, check "NO") \_\_\_\_\_

*With a "YES" response to ANY of these questions, place proposal in the high-risk pool.*

**ASSIGNED  
TO:**

**LOW-RISK  
POOL**

**HIGH RISK  
POOL**

**REMINDER:** Compare assessed low/high risk to risk classification in DMIS (if previous risk assessment was performed before receipt of proposal) and update if required.

**LOW RISK CLASSIFICATION COORDINATED WITH  
ACO**

**DATE**

**SUPERVISORY  
REVIEW:**

\_\_\_\_\_  
(Supervisor's Signature and Date)

- \* **Guideline for determining significance:** (a) questioned costs with an impact of less than \$10,000 on flexibly-priced contracts (using DMIS reporting rules) are generally not material and (b) questioned costs with an impact of \$10,000 or more may be immaterial in certain circumstances (isolated and nonrecurring).

**ABC, INC.**  
**Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

**SUMMARY OF DESK REVIEW RESULTS**

<u>Indirect Category</u>	<u>Claimed by Contractor</u>			<u>Questioned by Auditor*</u>			<u>Ref.</u>
	<u>Pool</u>	<u>Base</u>	<u>Rate</u>	<u>Pool</u>	<u>Base</u>	<u>Rate</u>	
FY _____							
Overhead	\$	\$	%	\$	\$	%	
G & A	\$	\$	%	\$	\$	%	

\* For illustration purposes only. (Normally desk reviews will not have questioned amounts except for math errors.)

REVIEWER'S SIGNATURE AND DATE \_\_\_\_\_  
(Reviewer's Final Review)

**RESULTS OF DESK REVIEW**

**CONCLUSION:**

Based on a risk assessment, ABC, Inc.'s FY 1997 incurred cost proposal was not selected for audit. However, we did perform certain procedures as follows:

- **Determined that ABC, Inc.'s** proposal is free of any mathematical errors;
- **Determined that ABC, Inc.'s** top management officials certified that the incurred cost submission does not include unallowable costs;
- **Performed a cursory review of ABC, Inc.'s** proposal for unusual items, obvious potential significant questioned costs, compliance with special contract terms and conditions, and audit leads requiring follow up;
- **Performed a cursory review of ABC, Inc.'s** proposal to determine if there are any significant changes from the prior year's proposal that need follow up;
- **If applicable, ensured that ABC, Inc.'s** corporate/home office audit results were incorporated; and

A ( / )

**ABC, INC.  
Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

- Requested that ABC, Inc. adjust its provisional billing rates for the reviewed year(s) to match the review-determined rates.

Based on our review, nothing came to our attention that caused us to believe that any significant costs claimed on the government contracts identified in [working paper \_\_\_, List of Contracts] were unallowable, unallocable, or unreasonable.

**ABC, INC.**  
**Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
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INITIAL SUPERVISORY GUIDANCE/REVIEW OBJECTIVES:

	<b>Planned Hours</b>	<b>Actual Hours</b>	<b>W/P Section</b>
<b>Review Risk Assessment</b>			<b><i>B</i></b>
<b>Review of Submission</b>			<b><i>C</i></b>
<b>Perform Concluding Review Steps</b>			<b><i>A</i></b>
Planned Hours		XXX	
Revised Hours		XXX	
Actual Hours	XXXX X		

Due date to Supervisor \_\_\_\_\_

**Preparation and Approval of the Initial Guidance, Review Objectives, and Review Memo  
Summary Format:**

REVIEWER'S SIGNATURE AND DATE: \_\_\_\_\_

AUDITOR'S SIGNATURE AND DATE: \_\_\_\_\_

**ABC, INC.  
Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

**PROGRAM FOR THE CONCLUDING REVIEW STEPS:**

(Based on WP A Risk Analysis/Supervisory Guidance)

**Detailed  
W/P Reference**

1. Summarize results for supervisory review. Include the results of corporate/home office audits.
2. Obtain supervisory review of working papers.
3. Prepare an indirect expense rate agreement letter for the review-determined rates (see CAM Figure 6-7-2). The rate agreement letter should advise the contractor to adjust the billing rates, as appropriate, based on the review-determined rates. If the rates will be negotiated by the contracting officer, proceed with the close-out memorandum discussed below.
4. Prepare a schedule of cumulative allowable costs by contract for use in accomplishing contract audit closing statements. Communicate with the contractor to have them provide this schedule whenever possible. Per CAM figures 6-7-2 and 6-1-1, this schedule should be included as an attachment to the contractor's rate agreement letter and an enclosure to the ACO's memorandum.
5. Prepare the draft memorandum to the ACO to report the review-determined/recommended rates and recommended direct costs (See CAM Figure 6-1-1). See CAM 10-506 for distribution.
6. Update permanent files with the executed rate letter and cumulative allowable cost worksheet.
7. Prepare and review accuracy of dollars examined, questioned costs, and sustained questioned costs amounts for DMIS reporting.

**ABC, INC.**  
**Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

NOTE: Low-risk proposals disposition using desk procedures and memorandum should be coded “no report issued” as of the date of the memorandum.

Total Planned Hours \_\_\_\_\_  
Total Revised Hours \_\_\_\_\_  
Total Actual Hours \_\_\_\_\_

REVIEWER’S INITIALS AND DATE \_\_\_\_\_  
(Approval required prior to performance of the review program)

**ABC, INC.  
Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

**INTERIM GUIDANCE/CORRECTIVE ACTIONS**

**Preparation and Approval of Interim Guidance/Corrective Actions**

REVIEWER'S SIGNATURE AND DATE: \_\_\_\_\_  
(Approval of additional steps required prior to performance)

AUDITOR'S SIGNATURE AND DATE: \_\_\_\_\_

**ABC, INC.**  
**Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

DEFENSE CONTRACT AUDIT AGENCY  
FINAL REVIEW COMMENTS

Comments \_\_\_\_\_ Actions \_\_\_\_\_  
 Prepared By: \_\_\_\_\_ Date: \_\_\_\_\_ Reviewed By: \_\_\_\_\_  
 Date: \_\_\_\_\_

[illegible]

(1) Number comments consecutively for reference.

**ABC, INC.**  
**Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

- |   |
|---|
| (2) Identify Reference: A -- Audit Program W -- Work Papers R -- Report Draft<br>(3) Codes for Action Required: C -- Correct this N -- Note for future S -- See me<br>(4) Codes for Actions Taken: C -- Corrected N -- Noted E -- Explanation on the attached sheet |
|---|

ABC, INC.  
Anywhere, VIRGINIA

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

**RISK ASSESSMENT/PRELIMINARY REVIEW**

**REVIEW CRITERIA: CAM 6-104**

Detailed  
W/P Reference

1. Review and attach completed proposal adequacy checklist (DCAA Form 7640.24a).
2. Review and attach completed FAO's "Risk Determination for Contractor Years with \$10M or Less ADV."

REVIEWER'S SIGNATURE AND DATE \_\_\_\_\_  
(Reviewer's Final Review)

**ABC, INC.  
Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

**REVIEW PLANNING CONSIDERATIONS**

1. Upon receipt, the contractor's incurred cost submission should have been evaluated for adequacy using the FAO's standard procedures for performing this evaluation. If additional data was required, the submission should have been returned at that time. If the submission has not yet been evaluated for adequacy, this assessment should be accomplished prior to beginning the review. The adequacy assessment should be documented on the "Non-Major Contractor MAARs Control Log and Initial Analysis of Contractor Incurred Cost Proposal (NM-MAARs), DCAA Form 7640-24a. DCAAP 7641.90, Guidance for New Contractors, includes an example of an acceptable incurred cost submission.
2. Each incurred cost proposal received and determined adequate by the FAO will be assessed for risk and the risk assessment will be documented. Then on the basis of this assessment, assigned to either the:
  - a. high-risk pool of proposals to be audited; or
  - b. low-risk pool of proposals to be sampled.
3. If there is a contracting officer request identifying significant risk associated with an incurred cost proposal, the proposal will be included in the high-risk pool. If an audit request is issued with no apparent risk, the auditor must contact the requester to understand the basis for the request. If after discussing with the contracting officer there is no risk identified, the proposal will be classified as low-risk. DCAA's desk review procedures applied to low-risk proposals not selected for audit should be explained to the contracting officer.
4. After two consecutive fiscal years at the same contractor are closed out using desk review procedures, the next year's proposal must be assigned to the high-risk pool of proposals to be audited. (However, see CAM 6-104.2c for classification when **two** or more low-risk proposals are received.)
5. If a contractor's ADV for a given CFY is less than \$500,000 and there are no audit leads with a high probability of significant questioned costs (i.e. cost impact of more than \$10,000) and an audit has been performed of either of the contractor's last two fiscal years' incurred cost proposals, then the contractor's incurred cost proposal for the CFY is low risk. No other factors need be considered, and the \$500,000 threshold applies to all contractors, unless we have

**ABC, INC.**  
**Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

no prior audit experience (e.g., preaward accounting system survey, proposal audit, establishment of billing rates). For new contractors where we have no prior experience, the incurred cost proposal should be classified as high risk.

6. If a contractor's ADV for a given fiscal year (CFY) is between \$500,000 and \$10 million and meets the following criteria, the proposal is low risk:
  - a. There are no significant questioned costs in the prior review. In determining significance, apply these guidelines: (a) questioned costs with an impact of less than \$10,000 on flexibly priced government contracts are generally not material, and (b) questioned costs with an impact of \$10,000 or more may also be immaterial in certain circumstances (e.g., the questioned cost is isolated or nonrecurring).
  - b. There are no audit leads with a high probability of significant questioned costs. Consistent with the above guideline, the auditor will normally consider leads with a cost impact on flexibly priced government contracts of less than \$10,000 to be immaterial.
  - c. We have incurred cost audit experience with the contractor.
  - d. Either of the last two fiscal years' incurred cost proposals has been audited.
7. The ACO should be notified of low-risk contractor classifications with documentation included in the working papers.
8. The Supervisory Auditor should determine that the procedures in this program and the supplemental steps added to it are tailored to meet the circumstances for the review being performed.

**Workpaper Preparation:**

Initial Electronic Workpapers were based on:

\_\_\_\_\_ Audit Planning and Performance System  
 \_\_\_\_\_ Copied From Audit Assignment Number \_\_\_\_\_

**ABC, INC.**  
**Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

**Detailed  
W/P Reference**

**PERFORM RISK ASSESSMENT**

1. Review the high/low risk assessment form to determine if the proposal is still low risk.
2. Coordinate low risk classification/desk review decision with the ACO.
3. Calculate the government flexibly priced contracts percentages of the indirect expense bases using the schedule of direct costs by cost element from the contractor's submission.

Total Budgeted Hours	
Total Revised Hours	
Total Actual Hours	

REVIEWER'S SIGNATURE AND DATE \_\_\_\_\_  
 (Approval of additional steps  
 required prior to performance)

**ADDITIONAL AUDIT STEPS BASED ON INTERIM GUIDANCE:**

REVIEWER'S SIGNATURE AND DATE \_\_\_\_\_  
 (Approval of additional steps  
 required prior to performance)

**ABC, INC.  
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of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

**REVIEW OF SUBMISSION**

Summary of Review of Submission

We found no exceptions to ABC, Inc.'s FY 1997 proposed indirect expense rates and direct costs based on the following.

Ref.

1. A certificate of indirect costs is on file.
2. Our scanning of the proposal did not reveal any unusual items, obvious potential significant questioned costs, noncompliance with special contract terms and conditions, or Audit leads that need follow-up.
3. Our scanning of the proposal did not reveal any significant changes from the prior year's proposal that need follow-up.
4. We verified the mathematical accuracy of the proposal without significant exceptions.
5. We incorporated any significant results of home or corporate office allocations applicable to this contractor into the results of our review.
6. We requested that the contractor adjust its provisional billing rates for the year reviewed to match the review-determined rates.

REVIEWER'S SIGNATURE AND DATE \_\_\_\_\_  
(Reviewer's Final Review)

**MEMORANDUM NOTE:**

We found no exceptions to the contractor's proposed indirect expense rates and direct costs.

**ABC, INC.  
Anywhere, VIRGINIA**

**Procedures for Desk Review  
of Annual Incurred Costs  
at Low-Risk NonMajor Contractors With \$10 Million or Less ADV**

**REVIEW OF SUBMISSION**

**PROGRAM FOR THE REVIEW OF SUBMISSION**

(Based on WP B Risk Analysis/Supervisory Guidance)

**Detailed  
W/P Reference**

1. Ensure that a “Certificate of Indirect Costs” has been executed by the contractor and a copy is included in the working paper file.
2. Scan the proposal for unusual items, obvious potential significant questioned costs, compliance with special contract terms and conditions, and audit leads that need follow up.
3. Scan the proposal to determine if there are any significant changes from the prior year's proposal that need follow up.
4. Verify the mathematical accuracy of the contractor’s proposal.
5. Determine if the submission includes **significant** corporate/home office cost allocations and incorporate the corporate/home office audit results (this may require suspending the desk review until the corporate audit is complete).
6. Request that the contractor adjust its provisional billing rates for the year reviewed to match the review-determined rates. This step is accomplished by the paragraph in the rate agreement letter that directs the contractor to promptly submit adjustment vouchers or final vouchers for all flexibly priced contracts (see CAM Figure 6-7-2).

Total Planned Hours    \_\_\_\_\_  
Total Revised Hours    \_\_\_\_\_  
Total Actual Hours    \_\_\_\_\_

REVIEWER’S INITIALS AND DATE

\_\_\_\_\_  
(Approval required prior to performance  
of the review program)

**C-1( / )**

## INDEX TO REVIEW WORKPAPERS

Contractor ABC, Inc.

Assignment Number XXXX-XXXXXXXXXX

<u>CHECK WHEN USED</u>	<u>W/P REFERENCE</u>	<u>DESCRIPTION</u>	<u>CHECK IF ELECTRONIC FILES</u>
	A	Summary of Review Results	
	B	Risk Assessment/Adequacy Checklist	
	C	Review of Submission	
	D		
	E		
	F		
	G		
	H		
	I		
	J		
	K		
	L		
	M		
	N		
	O		
	P		
	Q		
	R		
	S		
	T		
	U		
	V		
	W		
	X		
	Y		
	Z		

# DEFENSE CONTRACT AUDIT AGENCY

## INDEX TO ADMINISTRATIVE WORKING PAPERS

CONTRACTOR ABC, Inc.

ASSIGNMENT NO. XXXX-XXXXXXXXXXXX

<u>CHECK WHEN USED</u>	<u>W/P REFERENCE</u>	<u>DESCRIPTION</u>
<hr/>	1	<b>REVIEW REPORT/MEMO</b>
<hr/>	2	Computation of Dollars Audited & Cost Savings
<hr/>	3	Defective Pricing Lead Sheets
<hr/>	4	Negotiation Data/Disposition of Review Results
<hr/>	5	Audit Leads (check if positive)
<hr/>		
		<b><u>CORRESPONDENCE</u></b>
<hr/>	6	Entrance / Exit Conference Notes
<hr/>	7	Government Notes / Correspondence
<hr/>	8	Contractor Notes / Correspondence
<hr/>	9	Technical Report
<hr/>	10	Assist Audit Reports
<hr/>	11	Acknowledgment / Notification Letter (Original / Revised)
<hr/>	12	Request For Review (Original / Revised)
<hr/>		
		<b><u>PERMANENT FILE UPDATE WORKPAPERS</u></b>
<hr/>	13	ICAPs/ICQs Sections
<hr/>	14	Contract Briefs/Cumulative Allowable Cost Worksheets
<hr/>		
		<b><u>AGENCY ADMINISTRATIVE WORKPAPERS</u></b>
<hr/>	15	FMIS
<hr/>	17	Tick Marks Legend
<hr/>		
		<b><u>FAO SPECIFIC WORKPAPERS</u></b>
<hr/>	17	<hr/>
<hr/>	18	<hr/>
<hr/>	19	<hr/>
<hr/>	20	<hr/>
<hr/>	21	<hr/>
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		<b><u>CONTRACTOR'S SUBMISSION, DATA, ETC.</u></b>
<hr/>	22	Contractor's Submission, Data
<hr/>	23	Revised Contract Submission/Data
<hr/>		

Review workpapers will be indexed according to the following example:

- A (1/ )      Review Summary
- B (1/ )      Lead Workpaper (for cost element/ area of review)
  - B-1 (1/ )      Review Program Steps
  - B-2 (1/ )      Review of Internal Controls and Other Risk Assessment Information
- C (1/ )      Lead Workpaper
  - C-1 (1/ )      Review Program Steps
  - C-2 (1/ )      Detail Workpaper (Review Step Performed Related to Lead W/P)
    - C-2a (1/ )      Supporting Data for Detail Workpaper
    - C-2b (1/ )      Additional Supporting Data
- D (1/ )      Lead Workpaper

CONTRACTOR: ABC, Inc.

ASSIGNMENT NO. XXXX-XXXXXXXXXX

**DEFENSE CONTRACT AUDIT AGENCY**

**AUDIT LEADS**

AUDIT LEAD (Check one or more)

W/P Ref. \_\_\_\_\_

- \_\_\_\_\_ 1. Defective Pricing  
(Also Rate on DMIS Form)  
\_\_\_\_\_ 2. Estimating System Deficiency  
\_\_\_\_\_ 3. Operation Audit  
\_\_\_\_\_ 4. Labor  
\_\_\_\_\_ 5. Material

- \_\_\_\_\_ 6. Overhead  
\_\_\_\_\_ 7. Other Direct Costs  
\_\_\_\_\_ 8. Cost Accounting Standards  
\_\_\_\_\_ 9. Accounting System  
\_\_\_\_\_ 10. Internal Control

Other (Explain)

BRIEF EXPLANATION:

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SUPERVISORY REVIEW:

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Distribution:

- |          |   |                                 |
|----------|---|---------------------------------|
| Original | - | Permanent File/ Audit Lead File |
| 1        | - | Supervisor                      |
| 2        | - | Workpapers (Assignment File)    |
| 3        | - | All Auditors                    |

DISPOSITION (Document permanent file copy):

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DCAA FORM 7640-22A August 1987

**DEFENSE CONTRACT AUDIT AGENCY**  
**ENTRANCE / EXIT CONFERENCE**

Contractor ABC, Inc.

Assignment No. XXXX-XXXXXXXXXX

ENTRANCE CONFERENCE:

Date and Time \_\_\_\_\_

Attendees:

Defense Contract Audit Agency

Contractor

<u>Name</u>	<u>Title</u>	<u>Name</u>	<u>Title</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Notes/ Comments:

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Auditor's Initials & Date \_\_\_\_\_

EXIT CONFERENCE:

Date and Time \_\_\_\_\_

Attendees:

Defense Contract Audit Agency

Contractor

<u>Name</u>	<u>Title</u>	<u>Name</u>	<u>Title</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Notes/ Comments:

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Auditor's Initials & Date \_\_\_\_\_

## CONVERSATION WITH GOVERNMENT

Date and Time \_\_\_\_\_


This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on the right side, suggesting it's resting on a surface. There is no handwriting or other markings on the paper.

**DEFENSE CONTRACT AUDIT AGENCY**

**CONVERSATION WITH CONTRACTOR**

Contractor: ABC, Inc.

Assignment No. XXXX-  
XXXXXXXXXXXX

Date and Time \_\_\_\_\_

Attendees:

Defense Contract Audit Agency

ContractorName

Title

Name

Title


Notes/ Comments:

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Auditor's Initials & Date \_\_\_\_\_

**8**  
**ASSIGNMENT NO. XXXX-XXXXXXXXXX**

## TICK MARKS

Tick Marks are symbols used in working papers to indicate the source of information, or procedures performed by the auditor. In order to promote standardization and uniformity throughout all audits, the following tick marks should be utilized:

^	Footed
✓✓	Cross Footed
✓	Computation, calculation or extension verified
*	Amount immaterial, no further audit effort is deemed necessary
<b>CF</b>	Carried Forward
<b>V</b>	Verified to _____
<b>R</b>	Reconciled to _____
<b>G/L</b>	Agreed to General Ledger
<b>T/B</b>	Agreed to Trial Balance
<b>J/L</b>	Agreed to Job Cost Ledger
↓	Tick Mark with this under it indicates amount verified to same document

If special tick marks are developed by the auditor they should be explained on the working paper

All tick marks should be in **RED** to aid the reviewer in locating them in the body of the working paper.

**Print Auditor Name:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Initials:** \_\_\_\_\_